

An Empirical Investigation of the Audit Expectation Gap in Pakistan

Furqan Ali

Research Scholar, Hailey College of Commerce, University of the Punjab, Lahore, Pakistan & MS Scholar,
Department of Management, Bilkent University, Ankara, Turkey

Muhammad Aamir

Lecturer, Hailey College of Commerce, University of the Punjab, Lahore, Pakistan

Hasan Raza

Assistant Professor, Department of Commerce, University of Karachi, Karachi, Pakistan

Syed Asad Ahmed Naqvi

Commercial Specialist, ACCA-UK, Siemens, Istanbul, Turkey

Abstract

The basic purpose of this research is to find evidence on existence of audit expectation in Pakistan. Methodology and instrument used in this study was derived from similar investigation by Grambling and Schatzberg (1996) and a few necessary modifications are incorporated as per the rules and regulations governed and imposed by Institute of Chartered Accountants of Pakistan (ICAP). These questionnaires were distributed to three types of respondents' auditors, accountants and accounting educators. The results of this study provided the evidence that audit expectation gap exists among these three groups of respondents. The Implications and future research guidelines are also discussed accordingly.

Keywords: Audit, Audit expectation gap, auditors, accountants,

Introduction:

Audit expectation gap has a long history. This concept was defined in literature by Liggio (1974) ,after that various studies had been conducted on this topic in various countries. An audit gap arises when there is a perception difference between expectations of stakeholders and duties of auditors(Gary S. Monroe & Woodliff, 1994).

The researchers and accounting professionals have come up with differentiating views in terms of responsibilities lie with the parties. Some of the researchers claim that the auditors are responsible to detect the fraud (Humphrey, Moizer, & Turley, 1993).On the other hand, fraud detection is the primary and most important part of auditing process (Dicksee, 1892).So when a difference arises from any side either from stakeholders or from the side of auditors it results in creation of expectation gap.

The purpose of this research is to conduct a study in Pakistan regarding the existence of this expectation gap; this study is focusing three types of respondents including auditors, accountants and accounting educators. This study will contribute to the literature by providing empirical evidence, help the accounting professionals and educators in making up a mindset and clarification of concepts, and also support the policy makers for their perspective decisions and policy implications. As per the best of researchers' knowledge Pakistan lacks the literature support regarding this expectation gap. And this study will also provide literature support for the further studies to be conducted in Pakistan as well as it will also contributes a lot in respect of reduction of audit expectation gap in Pakistan.

Literature

An audit expectation gap exists when there is a difference between 'what public is expecting from auditors' and 'what auditors are actually providing to general public' means up to what extent they are fulfilling their duties and responsibilities so that to make audit report according to requirements of public. There is a gap exists between auditors and various groups such as investors and other stakeholders regarding their beliefs, The gap may arise due to difference in interpretation of information, i.e. what a kind of information required by public and in what way it is interpreted in auditor's report(Gary S. Monroe & Woodliff, 1994).Auditors should give almost "absolute" surety against any type of fraud or intentional mismanagement if there is, made by management of company(Epstein & Geiger, 1994).

But the expectations were same as they were before, that auditors should detect every kind of fraud and they should also verify each and every transaction, that they are showing true and fair view about the records of firm. The Cohen Commission also give an indication that there might be a gap due differences in expectation and needs of public and what should be reasonably expected from auditors(AICPA, 1978).

A number of studies were conducted in US regarding this gap so that to highlight the facts and factors that contributes towards the expectation gap. Mostly studies were done to get know-how about auditor's and public's view about the duties and responsibilities of auditors. For example, a study Conducted to check the duties of auditors from the point of view of investors about the detection of errors and frauds(Epstein & Geiger, 1994). And then they compared their views with the auditing standards and concluded that a gap exists between them regarding the level of assurance that those auditors should give a surety against every type of errors and irregularities.

Various researches were also made in UK to measure this gap. Study confirmed that there exists a gap in UK about the auditors roles and their expected performances(Humphrey et al., 1993). Same results were generated regarding this gap in when studies were conducted in Spain and Britain(Garcia-Benau, Humphrey, Moizer, & Turley, 1993).

In Egypt a studies was also conducted on expectation gap. The existence of expectation gap was verified(Gary S. Monroe & Woodliff, 1994), and they also compared their findings with the results of studies held by them in prior periods. In their study they highlighted that there is gap regarding the responsibilities of auditors about prevention and detection of frauds. They also found that there was also a gap about reliability of audited financial statements and its usefulness as well as the reliability of internal control(Dixon, Woodhead, & Sohlman, 2006).

In Singapore studies resulted in the existence of a large expectation gap regarding responsibilities of auditors. The reason of the gap was about the selection of auditors procedures and their responsibilities about detection and prevention of frauds(Low, 1984). In Malaysia researches were also conducted. Results shows that there was a wide expectation gap and misunderstandings about the role of audit in Malaysia(Fadzly & Ahmad, 2004). Another study in Malaysia also resulted in existence of audit expectation gap as well as this research also supports the findings of previous researches which were held in Malaysia(Mohd Ariff, Rosmaini, & Hanafi, 2008).

A great contribution to this study was made by Brenda porter in which she divided this expectation gap in to two portions. First one was 'Reasonableness gap' means unreasonable expectations made by public and second one was 'expectation gap' .performance gap was from the side of auditors and expectation gap was from the side of public. performance gap was subdivided into deficit performance and deficit standard and her results concludes that performances attributes contributes about 66% of this gap and unreasonable expectations contributes the remaining 34% of the total gap(Porter, 1993).

In Saudi Arabia Studies resulted in providing evidences regarding responsibilities of management. The result shows that deficiencies from the side of management, management contributes a lot towards creating this gap. Such as inadequate disclosures of book of accounts and records as well as violations of rules etc... and from the side of Auditors the results shows that gap was due to exclusion of Islamic principles (resulting in deficit standards) and increasing this gap (Haniffa & Hudaib, 2007).

In Iran a study was also conducted focusing the group of investors, financial managers and auditors as their population, and the area of study focused by them was fraud detection and the role of auditors. And they concluded that the gap was exists in the professional environment of Iran between all these three groups(Saeidi, 2012).

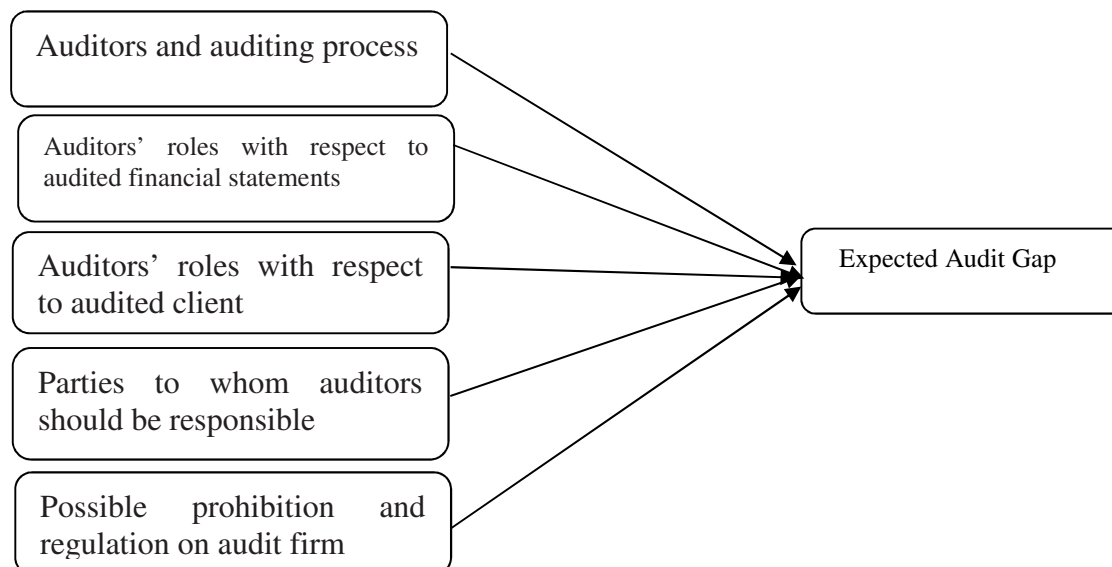
Many studies were conducted in different countries resulting in confirmation of existence of audit expectation gap, for example in Australia(G.S. Monroe & Woodliff, 1993), in New Zealand(Porter, 1993), in Singapore(Best, Buckby, & Tan, 2001), in china (Lin & Chen, 2004), in Egypt(Dixon et al., 2006), in Saudi Arabia (Haniffa & Hudaib, 2007) confirmed that an audit expectation gap exists in these countries. In Pakistan up to present time, no study has been conducted regarding the existence of audit expectation gap. This study aims to check whether this gap exists in Pakistan or not.

Research design

This section describes the particulars and methods used in this research. It also describes the details about collection of data, variables of this study, tools and software which was used to achieve the results of this study.

Conceptual framework

This study was conducted by utilizing the research instrument utilized by (Mohd Ariff et al., 2008) in Malaysia and this instrument was basically developed by (Grambling & Schatzberg, 1996). So we took it as a valid instrument.



Respondents has to answer these questions on a four point Likert-based scale indicating their level of agreement from 1) strongly disagree; 2) disagree; 3) agree to 4) strongly agree.

Auditors and Auditing Process:

This variable was used to measure that up to what extent the respondents (auditors, accountants and educators) view auditors and their auditing process. The questions asked from respondents were these: a) investing community expects too much from the auditors and; b) auditors always try to keep the management of company happy etc.

Auditors' Roles with Respect of Audited Financial Statements:

This variable was used to check the expectations of respondents about the duties and responsibilities of auditors with respect to financial statements of the company

The questions asked were: a) whether auditors should ensure that financial statements are according to Generally Accepted Accounting Principles or not and; b) either they ensure that financial statements are according to conventional accounting standards or not etc.

Auditors' Roles with Respect of Audited Clients:

This variable was used to measure the view of respondents about the roles and duties of auditors with respect to their audit clients. And the examples of the questions asked from them were: a) whether every major kind of fraud is detected or not; b) a reasonable structure of internal control exists or not etc.

Parties to Whom Auditor Should Be Responsible:

This variable in the study measures respondents' views about the parties to whom auditors should be held accountable. The four types of parties included in this variable were a) existing and potential shareholders; b) existing and potential creditors etc.

Possible Prohibitions and Regulation on Audit Firm:

This variable was used to measure the view of respondents on various suggestions about preventions and regulations on an audit firm. The example of the questions asked were: a) audit firm should disallow its members from trading of shares of their audit clients; b) should not offer advisory services to their audit clients and c) they should not work for the purpose of making profit etc.

Methodology and data collection:

Statistics for this study was collected through the distribution of questionnaires to respondents which includes the: a) auditors; b) accountants and educators (i.e., accounting and auditing lecturers). All data was self collected by visiting different auditing firms, companies and educators of different universities and institutes.

Instrumentation:

The instrument used in this research was based on an instrument developed and tested in different studies of audit expectation gap by (Grambling & Schatzberg, 1996) , and (Mohd Ariff et al., 2008). These instruments

included questions considered to obtain opinions on the role and nature of auditing, its rules, regulations and the audit environment. This instrument consisted of two portions: a) questions designed to get the information about biographical and personality variables of the respondents; b) questions designed to get opinions about the role and nature of auditing.

Statistical Analysis:

SPSS version 16 was used for statistical analysis of this study. All data was collected by self-reported questionnaires that involved respondents to give their views about auditing using a 4-point Likert-based from 1) strongly disagree; 2) disagree; 3) agree to 4) strongly agree. Then the next step was to decide that what type of technique should be used for analysis purpose as in this research we have three type of respondents and for the use of non-parametric tests for ordinal data, and K-S was utilized to check the normality of data. P value of all factors was less than 0.05, therefore non-parametric test was the only option to achieve the main purpose of this research, so Kruskal-Wallis test was the best option(Keller & Warrack, 2000) as same tests were applied in a similar study by (Mohd Ariff et al., 2008).

Results and discussion:

The basic purpose of this study was to find whether there is any kind of audit expectation gap exists in Pakistan or not among auditors, accountants and educators. Firstly descriptive analysis was used to check the frequency of respondents and their percentage towards total.

Descriptive Analysis:

A total of 180 questionnaires were distributed among these three respondents i.e. auditors, accountants and accounting & auditing educators, out of which 148 were useful responses and they were keyed into SPSS version 16, there frequency and percentage is described in following Table 1.1

Table 1.1 Descriptive Analysis

Respondents	Frequency	Percentage
Auditors	44	29.7%
Accountants	52	35.1%
Educators	52	35.1%
Total	148	100%

1) Auditors and Auditing Process

As described earlier questions asked in this variable were a) investing community expects too much from the auditors and; b) audit is little benefit to company etc. Kruskal-Wallis test was applied to evaluate the differences based on mean rank of each group and there was a gap between these three groups (respondents) as they do not have same views on following questions as shown in table 1.2 with their P-value and mean rank according to results of Kruskal-Wallis test

Table 1.2 Auditors and Auditing Process

No.	Description of question	P-Value	Mean Rank		
			Auditors	Accountants	Educators
1.	Investing community expects too much from the auditors.	0.000	97.06	60.25	69.66
2.	Auditors always try to keep the management of company happy.	0.000	59.30	96.54	65.33
3.	Audit process is affected adversely by imprecise standards.	0.000	56.09	75.04	89.54
4.	Audit is little benefit to company	0.000	71.64	91.09	60.34
5.	Auditors do not realize the problems of company.	0.000	48.84	101.27	69.44
6.	They should report to shareholders about management efficiency.	0.000	38.19	98.33	81.39
7.	They should highlight the methods for improvement of management efficiency.	0.000	51.53	93.21	75.22

In No.1, 3, 6, 7 of Table 1.2 as it is clear from mean rank of results that there is gap between views of auditors on one side and views of accountants and educators on other side and in No. 2,4 views of auditors and educators are different from views of accountants. While in No.5 views of all three respondents are different from each other.

2) Auditors' Roles with Respect of Audited Financial Statements

In this variable P-Value of following questions was less than 0.05 , indicating the expectation gap a) whether auditors should ensure that financial statements are according to Generally Accepted Accounting Principles or not(P-value 0.000) and; b) either they ensure that financial statements are according to conventional accounting standards or not(P-Value 0.000) as described in detail in Table 1.3

Table 1.3 Auditors' Roles with Respect of Audited Financial Statements

No.	Description of question	P-Value	Auditors	Mean Rank	
				Accountants	Educators
1.	Comply with GAAP	0.000	97.15	56.47	73.37
2.	Conform to conventional accounting standards	0.000	95.34	64.26	67.11

In No.1 of Table 1.3 as it is clear from mean rank of results that there is gap between views of all three respondents and in No. 2, there is gap between views of auditors on one side and views of accountants and educators on other side.

3) Auditors' Roles with Respect of Audited Clients

In this variable the gap was found in following questions; a) whether every major kind of fraud is detected or not ;(P-Value 0.003) b) a reasonable structure of internal control exists or not(P-Value 0.000) as explained results are shown in table 1.4

Table 1.4 Auditors' Roles with Respect of Audited Clients

No.	Description of question	P-Value	Auditors	Mean Rank	
				Accountants	Educators
1.	Frauds are detected?	0.003	89.49	74.49	61.83
2.	A reasonable structure of internal control exists?	0.000	80.17	90.02	69.03

In No.1, 2 of Table 1.4 as it is clear from mean rank of results that there is gap between views of all three respondents.

4) Parties to Whom Auditor Should Be Responsible

This variable resulted in existence of gap among all four questions, as the questions asked were about the responsibility of auditors ,that auditors should responsible to; a) existing shareholders(P-Value 0.001); b) potential shareholders(P-Value 0.000);c) existing creditors(P-Value 0.000); d) potential creditors(P-Value 0.000), results are described in detail in Table 1.5

Table 1.5 Parties to Whom Auditor Should Be Responsible

No.	Description of question	P-Value	Auditors	Mean Rank	
				Accountants	Educators
1.	Existing shareholders	0.001	61.77	90.74	69.03
2.	Potential shareholders	0.000	46.77	100.62	71.85
3.	Existing creditors	0.000	49.47	96.47	73.71
4.	Potential creditors	0.000	52.51	99.74	67.87

In all questions of Table 1.5 as it is clear from mean rank of results that there is gap between views of all three respondents. Views of all three respondents are different from each other.

5) Possible Prohibitions and Regulation on Audit Firm

In this variable in “auditors should have a maximum tenure for a client” and “their appointment and fee should be determined by third party” have no gap as the respondents give almost similar responses about these questions and there P-Value was greater than 0.05, but there was a gap in following a) auditors do not work mainly to earn profit (P-Value 0.000); b) their methods are checked by an professional body (P-Value 0.000) etc results are explained in detail in Table 1.6

Table 1.6 Possible Prohibitions and Regulation on Audit Firm

No.	Description of question	P-Value	Auditors	Mean Rank	
				Accountants	Educators
1.	Work to make profit	0.000	97.00	64.84	65.12
2.	Do not render advisory services to client	0.000	60.90	98.10	62.41
3.	Should not earn more than 15% of profit from one client.	0.000	88.22	85.83	51.57
4.	Audit process is verified by a professional body.	0.000	98.25	61.96	66.94

In No.1, 4 of Table 1.6 as it is clear from mean rank of results that there is gap between views of auditors on one side and views of accountants and educators on other side and in No. 2 views of auditors and educators are different from views of accountants. While in No.3 views of auditors and accountants are different from views of educators.

Conclusion:

Main purpose of this research was to find the existence of audit expectation gap in Pakistan, and as it is cleared from results that this gap exists in Pakistan among all independent variables, sometimes views of auditors and educators are different from views of accountants and some views of auditors are different from views of accountants and educators there were only few questions about which the views of all three types of respondents were same, resulting as an evidence of existence of audit expectation gap in Pakistan as shows by results of Kruskal-Wallis test in the results and discussion portion of this article. This study suffers many limitations just like lack of literature support from Pakistan; it also suffers lack of opinions from experience persons because according to the results of data collected through questionnaires most of the people have experience of only one to five years, only few of them have experience of more than ten years. But this is a need to reduce this gap. Auditors should improve their responsibilities and people should be educated to reduce this gap because this gap results in bad reputation of auditors.

Acknowledgement

We would like to thanks to all reviewers for their suggestions for improvements in this paper, and also thankful to Prof. Musarrat Nawaz, Prof. Mian Sajid Nazir and Muhammad Mubeen who helped us a lot during the statistical analysis of this study. The data of this study is available for authors who want to conduct studies or

interested in this study.

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